

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the July 11, 2001
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: September 5, 2001

INFORMATION:

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee meeting held in open session July 11, 2001 are submitted as Attachment 1.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
JULY 11, 2001
OPEN SESSION
BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
George Fenimore
Paul Krasnow
Karen Russell
Carolyn Widener
Annette Porini, representing State Director of Finance
Tim Gage
Walter Barnes, representing State Controller
Kathleen Connell
Curt Robinson, representing State Superintendent of Public Instruction
Delaine Eastin
Jennifer DuCray-Morrill, representing State Treasurer
Philip Angelides

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Chris Solich

STAFF PRESENT

James Mosman, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Chris Waddell, Chief Counsel
Elleen Okada, Director of Investment Administration and External Relations
Ed Derman, DCEO, External Affairs and Program Development
Doug Wills, Staff Counsel
Michelle Cunningham, Director of Fixed Income
Mike DiRe, Director of Real Estate
Steven Tong, Director of Internal Equities
Real Desrochers, Director of Alternative Investments
Janice Hester Amey, Principal Investment Officer
Paul Shantic, Principal Investment Officer
Deborah Contini, Investment Officer
Glenn Hosokawa, Investment Officer
Richard Rose, Principal Investment Officer
Trish Taniguchi, Investment Officer
Jim Hurley, Investment Officer

Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Terry Sander, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Beverly Carlson, CTA
Edna White, CRTA
Loretta Toggenburger, UTLA-Retired

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:30 a.m.

I. **ANNOUNCEMENTS** (Item 2)
There were no announcements.

II. **APPROVAL OF MINUTES OF THE JUNE 6, 2001 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Ms. Porini, seconded by Mr. Robinson and carried to approve the minutes of the June 6, 2001, Investment Committee, Open Session as presented. Mr. Fenimore abstained.

III. **REPORT OF THE SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)
Ms. DuCray-Morrill reported that the Subcommittee received an update on the search for securities litigation evaluation counsel.

IV. **BUSINESS PLANS FOR 2001/2002** (Item 5)
Mr. Ailman reviewed the written Investment Policy and Management Plan highlighting proposed changes. Discussion ensued. Staff was directed to add language indicating that the CIO will report any portfolio rebalancing to the Committee. Mr. Ailman also distributed a glossary of investment terms.

Ms. Okada and Ms. Hester Amey presented the written business plan for the External Equity Division. Staff was introduced. Ms. Okada and Ms. Hester Amey discussed the role, business units, allocation, historical returns, benchmarks, and objectives for the External Equity Division. The detail of the Corporate Governance business plan will be discussed at a future meeting of the Subcommittee on Corporate Governance.

Mr. Tong and Ms. Contini presented the written business plan for the Internal Equities Division. Staff was introduced. Mr. Tong and Ms. Contini discussed the current and future role, performance, objectives, and proposed policy changes for the Internal Equities Division.

Chairperson Lynes recessed the meeting at 10:25 a.m.
The meeting reconvened at 10:35 a.m.

Ms. Cunningham, Mr. Shantic, and Mr. Hosokawa presented the written business plan for the Fixed Income Division. Staff was introduced. Ms. Cunningham, Mr. Shantic, and Mr. Hosokawa discussed the role, portfolios and programs, long-term issues, and objectives for the Fixed Income Division.

Mr. Desrochers and Mr. Rose presented the written business plan for the Alternative Investment Division. Staff was introduced. Mr. Desrochers and Mr. Rose discussed the role,

industry dynamics, portfolio and performance issues, risk management, long-term portfolio projections and objectives for the Alternative Investment Division.

Mr. Dire presented the written business plan for the Real Estate Division. Staff was introduced. Mr. Dire discussed the role, risk allocations, performance, marketplace issues, challenges, and objectives for the Real Estate Division. The Committee directed staff to include the \$750 million allocation to urban real estate investments in the historical information.

Ms. Okada and Mr. Petzold presented the written business plan for the Operations Division. Staff was introduced. Mr. Petzold discussed the role, business units, trade flow process, technology support, coordination and communication, historical returns, industry issues, and objectives for the Operations Division.

MOTION duly made by Ms. DuCray-Morrill, seconded by Mr. Fenimore and carried to approve the business plans including the suggested modifications to the Investment Policy and Management Plan, and the Real Estate historical information.

Chairperson Lynes recessed the meeting at 12:05 p.m.

The meeting reconvened at 12:58 p.m. Ms. DuCray-Morrill did not return to the meeting following the recess, Ms. Solich represented the State Treasurer.

V. **PROPOSED 2001/2002 INVESTMENT BRANCH OBJECTIVES AND COMMITTEE WORK PLAN** (Item 6)

Mr. Ailman presented the written proposal for branch objectives and the Investment Committee work plan for the 2001/2002 fiscal year. Discussion ensued. The Committee directed Staff to add a review of the responsible contractor policy to the Real Estate section for spring.

BY CONSENSUS, the Committee approved the objectives and Investment Committee work plan for 2001/2002.

VI. **ASSET ALLOCATION REVIEW OF CAPITAL MARKET ASSUMPTIONS** (Item 7)

Mr. Ailman presented the second part of the asset allocation process. Mr. Ailman discussed historical returns of the various asset classes. Mr. Emkin presented an asset allocation study and explained PCA's methodology for developing assumptions. Discussion ensued.

MOTION duly made by Mr. Fenimore, seconded by Ms. Widener and carried to accept the Capital Market Assumptions as identified and recommended by Staff.

VII. **REAL ESTATE – AFFORDABLE HOUSING REQUEST FOR QUALIFICATIONS** (Item 8)

Mr. DiRe presented a draft of a Request for Information (RFI) for the Affordable Housing Investment Program. Discussion ensued.

Mr. Waddell stated for the record that the RFI is appropriate since this will be a tool to gather information that may result in an investment, but no personal services contracts will be awarded to the respondents.

Mr. Barnes stated for the record that the Controller expresses her appreciation for the Staff work on development of the proposal.

MOTION duly made by Mr. Barnes, seconded by Ms. Porini and carried to authorize Staff to release a Request for Information for the Affordable Housing Program.

MOTION duly made by Mr. Robinson, seconded by Mr. Fenimore and carried to add a “no contact” provision to the RFI. A roll call vote was taken.

Roll call vote on the MOTION

| | |
|---------------------------------------|-----|
| George Fenimore | YES |
| Paul Krasnow | NO |
| Karen Russell | NO |
| Carolyn Widener | NO |
| Annette Porini for Tim Gage | YES |
| Walter Barnes for Kathleen Connell | NO |
| Curt Robinson for Delaine Eastin | YES |
| Chris Solich for Philip Angelides | YES |
| Gary Lynes | YES |

The motion CARRIED with 5 members voting YES and 4 members voting NO.

Chairperson Lynes recessed the meeting at 2:40 p.m.
The meeting reconvened at 2:50 p.m.

- VIII. **LEGISLATION** (Item 9)
Mr. Derman had nothing to report.
- IX. **CREDIT ENHANCEMENT PROGRAM – ACTIVITY STATUS REPORT** (Item 10)
Mr. Rose presented the written report.
- X. **REAL ESTATE – ACTIVITY STATUS REPORT** (Item 11)
Mr. Hurley presented the written report.
- XI. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 12)
Mr. Desrochers presented the written report.
- XII. **QUARTERLY LITIGATION REPORT** (Item 13)
Mr. Waddell presented the written report.
- XIII. **CALSTRS 10-YEAR BUSINESS PLAN CONCEPT DOCUMENT** (Item 14)
Mr. Ailman discussed the development of a comprehensive long-term business plan to manage future growth. Mr. Ailman presented a 10-year forecast of potential asset growth and costs and expenses. Discussion ensued
- XIV. **REAL ESTATE - MANAGER EVALUATION PROCESS** (Item 15)
Mr. Dire presented a newly developed evaluation form and a timetable for performance evaluation of the real estate managers.
- XV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 16)

Mr. Ailman presented the written report and reported that home loan transactions with five correspondents had been suspended.

XVI. **DRAFT AGENDA FOR SEPTEMBER INVESTMENT COMMITTEE MEETING** (Item 17)

Mr. Ailman discussed the draft agenda for the September Investment Committee meeting. It was determined that items 14, 17, and 20 should be removed from the agenda and a closed session item for External Equities – Semi-annual Equity Manager Rating should be added.

XVII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 18)

There were no statements from the public.

XVIII. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 3:25 p.m. and reconvened into closed session.

XIX. **ADJOURNMENT**

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:45 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson